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C O N F I D E N T I A L SECTION 01 OF 02 ZAGREB 001031

SIPDIS

TREASURY FOR OFAC
EUR/SCE FOR DNYSTROM

E.O. 12958: DECL: 05/09/2013

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SUBJECT: CROATIA DECIDES TO ACCEPT UNFROZEN FUNDS "WITHOUT
PREJUDICE" TO RATIFICATION OF ASI

CONFIDENTIAL

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REF: STATE 117150 (NOTAL)

CLASSIFIED BY: ECONOMIC OFFICER ISABELLA DETWILER: REASON 1.5 (B AND D)

SUMMARY

1. (C) AT A CLOSED SESSION ON MAY 8, THE CROATIAN CABINET FORMALLY DECIDED TO ACCEPT FUNDS FROZEN IN THE U.S. UNDER MILOSEVIC-ERA SANCTIONS. ON MAY 7 WE MET WITH MFA SENIOR LEGAL ADVISOR ANDREJA METELKO-ZGOMBIC AND AMERICA'S DESK DIRECTOR MIROSLAV KOVACIC TO PRESS FOR CROATIAN ACCEPTANCE. THIS ISSUE WAS ALSO RAISED DURING THE SECRETARY'S MEETING WITH FM PICULA ON THE MARGINS OF THE SIGNING OF THE ADRIATIC CHARTER ON MAY 12.

2. (SBU) ON MAY 9 WE CONFIRMED WITH METELKO-ZGOMBIC THAT THE CABINET HAD DECIDED TO ACCEPT THE FUNDS, WHILE NOT PREJUDICING THE PARLIAMENT'S DECISION ON WHETHER TO RATIFY THE AGREEMENT ON SUCCESSION ISSUES (ASI). IN COMMENTS TO THE PRESS AFTER THE CABINET SESSION, GOVERNMENT OFFICIALS ALSO ANNOUNCED IT WOULD SEEK LEGAL ACTION AGAINST ONE OF THE JOINT VENTURE BANKS IN GERMANY, WHERE DEPOSITS MYSTERIOUSLY ERODED. METELKO-ZGOMBIC STATED THAT THE PURPOSE OF THE LEGAL ACTION WOULD BE TO TRY TO FORCE DISCLOSURE OF THE HISTORY OF THE ACCOUNTS, THOUGH IT WAS POSSIBLE THAT SOME SORT OF RESTITUTION MIGHT BE SOUGHT. END SUMMARY.

3. (SBU) ON MAY 8, IN A CLOSED CABINET SESSION, THE
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GOVERNMENT DECIDED TO ACCEPT THE APPROXIMATELY \$56 MILLION TRANSFER FROM THE USG. DEPUTY FOREIGN MINISTER IVAN SIMONOVIC WAS QUOTED AS SAYING THAT THE GOVERNMENT WAS MIXING "PRINCIPLES WITH PRAGMATISM," STRESSING THAT ACCEPTING THE MONEY DID NOT MEAN THAT CROATIA WOULD RATIFY THE ASI. SIMULTANEOUSLY, OFFICIALS ANNOUNCED THE DECISION TO FILE A LAWSUIT AGAINST THE LHB BANK IN GERMANY, APPARENTLY PARTIALLY OWNED BY SLOVENIA'S LJUBLJANSKA BANKA. IN RESPONSE TO OUR QUERY, METELKO-ZGOMBIC CLARIFIED THAT THE PURPOSE OF THE LAWSUIT WOULD BE TO EXTRACT INFORMATION ABOUT THE DISAPPEARING DEPOSITS, THOUGH SHE DID NOT EXCLUDE THE POSSIBILITY OF SEEKING SOME SORT OF COMPENSATION FROM THE BANK.

4. (SBU) THE DAY BEFORE THE DECISION, WE MET WITH MFA SENIOR LEGAL ADVISOR ANDREJA METELKO-ZGOMBIC AND AMERICA'S DESK DIRECTOR MIROSLAV KOVACIC TO PRESS FOR CROATIAN ACCEPTANCE OF THE FUNDS FROZEN IN THE U.S. UNDER MILOSEVIC-ERA SANCTIONS. WE STRESSED THAT WE SAW THE DISBURSEMENT OF THE FUNDS IN THE U.S. AS SEPARATE FROM THE ISSUE OF THE ASI, ALTHOUGH RESOLUTION OF THE LATTER WOULD CERTAINLY BE IN CROATIA'S INTEREST.

5. (C) METELKO-ZGOMBIC ACKNOWLEDGED THE RESOLUTION OF SUCCESSION ISSUES WAS IN CROATIA'S INTERESTS, BUT THE PUBLIC AND THE PARLIAMENT WERE DEMANDING ANSWERS. SHE REJECTED THE ARGUMENT THAT "EVERYONE IN VIENNA KNEW" THAT THE NUMBERS IN THE ASI WERE NOTIONAL; WHILE ADMITTING THE LIMITS OF HER KNOWLEDGE OF BANKING, SHE INSISTED THAT "ANY VILLAGE BANK" COULD COME UP WITH A FIGURE FOR ITS DEPOSITS. WHEN CROATIA WENT TO THE OVERSEAS JOINT
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VENTURE BANKS TO ASK FOR AN ACCOUNTING, IT WAS REBUFFED AND SENT TO THE NATIONAL BANK OF YUGOSLAVIA. METELKO-ZGOMBIC INSISTED THAT THE NBY WAS EVADING ITS RESPONSIBILITY, AS LAID OUT IN APPENDIX 1 TO ANNEX C OF THE ASI, TO FACILITATE THE RELEASE OF INFORMATION FROM THE JOINT VENTURE BANKS TO THE SUCCESSOR STATES. WE WONDERED ALOUD WHETHER A FULL ACCOUNTING WOULD REALLY BE ENOUGH TO CONVINCE THE PARLIAMENT TO SWALLOW AND RATIFY; METELKO-ZGOMBIC RETORTED IT WAS THE LEAST THE GOVERNMENT COULD DO.

16. (C) TURNING TO THE DISBURSEMENT OF FUNDS FROM THE FEDERAL RESERVE BANK OF NEW YORK, METELKO-ZGOMBIC SAID SHE DID NOT UNDERSTAND THE RELATIONSHIP BETWEEN THE UNFREEZING OF THE FUNDS, AS WE HAD PROMISED TO DO, AND THE DECISION TO DIVIDE AND DISBURSE THE FUNDS, WHICH HAD COME AS A COMPLETE SURPRISE, AND THROUGH A RATHER UNUSUAL CHANNEL -- THE U.S. BANK COMMUNICATION TO THE CROATIAN NATIONAL BANK. WE EMPHASIZED THAT THE USG HAD DECIDED THE QUICKEST AND MOST EFFICIENT WAY TO GET THE SUCCESSOR STATES BACK THEIR OWN MONEY, UN-ERODED BY LAWSUITS, WAS THROUGH THIS MECHANISM.

17. (C) WHILE REFUSING TO PREJUDGE THE FINAL GOVERNMENT DECISION, METELKO-ZGOMBIC SAID THE GOVERNMENT WOULD TRY TO FIND A WAY TO ACCEPT THE FUNDS WITHOUT PREJUDICING THE

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ACTION EUR-00

INFO	LOG-00	NP-00	AF-00	AGRE-00	AID-00	CEA-01	CIAE-00
	COME-00	CTME-00	INL-00	C-00	DODE-00	DOT-00	SRPP-00
	DS-00	EB-00	EXIM-01	E-00	FAAE-00	FBIE-00	VC-00
	FRB-00	H-01	TEDE-00	INR-00	ITC-01	LAB-01	L-00
	VCE-00	AC-01	NSAE-00	NSCE-00	OMB-01	OPIC-01	PA-00
	PM-00	PRS-00	ACE-00	P-00	SCT-00	SP-00	SSO-00
	SS-00	STR-00	T-00	USIE-00	PMB-00	DSCC-00	PRM-00
	DRL-01	G-00	NFAT-00	SAS-00	SWCI-00	/009W	

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R 091332Z MAY 03
FM AMEMBASSY ZAGREB
TO SECSTATE WASHDC 0150
INFO AMEMBASSY BELGRADE
AMEMBASSY LJUBLJANA
AMEMBASSY SARAJEVO
AMEMBASSY SKOPJE
DEPT OF TREASURY WASHDC

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LEGISLATURE'S DECISION ON RATIFICATION OF THE ASI.
PERSONALLY, SHE FEARED THAT ONCE AN AGREEMENT BEGINS TO
BE IMPLEMENTED WITHOUT RATIFICATION, THE RATIFICATION
LOSES SIGNIFICANCE. IT SETS A PRECEDENT.

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